

**CITY OF KNOXVILLE**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**June 30, 2015**

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## CITY OF KNOXVILLE

### OFFICIALS

| <u>Name</u>               | <u>Title</u>                        | <u>Term Expires</u> |
|---------------------------|-------------------------------------|---------------------|
| Brian Hatch. ....         | Mayor. ....                         | Jan 2016            |
| Carolyn Formanek. ....    | Mayor Pro-Tem. ....                 | Jan 2016            |
| Dawn Allspach-Kline. .... | Council Member. ....                | Jan 2018            |
| Dave Roozeboom. ....      | Council Member. ....                | Jan 2018            |
| April Verwers. ....       | Council Member. ....                | Jan 2016            |
| Tim Pitt. ....            | Council Member. ....                | Jan 2016            |
| Harold Stewart. ....      | City Manager. ....                  | Indefinite          |
| Heather Ussery. ....      | City Clerk. ....                    | Indefinite          |
| Jodi Bassett. ....        | Deputy Clerk/Admin. Assistant. .... | Indefinite          |
| Robert Stuyvesant. ....   | Attorney. ....                      | Indefinite          |

**City of Knoxville**



## MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS

4949 Pleasant Street, Suite 104

West Des Moines, Iowa 50266

(515)-223-4841

FAX: (515)-223-0851

### **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the City Council:

#### **Report on the Financial Statements**

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Knoxville, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This include the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

### *Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit*

The financial statements do not include the financial data for the City's legally separate component unit. Accounting principles applicable to the cash basis of accounting require the financial data for the component unit be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity which include the financial data for its component unit. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and cash balances of the aggregate discretely presented component unit has not been determined.

### *Adverse Opinion*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component unit of the City as of June 30, 2015, or the changes in cash basis financial position thereof for the year ended in accordance with the basis of accounting described in Note 1.

### *Unmodified Opinions*

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting as described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

## Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City of Knoxville adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Knoxville's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the five years ended June 30, 2010 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those primary government financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the City's Management's Discussion and Analysis, the budgetary comparison information, the Schedules of the City's Proportionate Share of the Net Pension Liability and the Schedules of City Contributions on pages 8 through 13 and 42 through 49 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015 on our consideration of the City of Knoxville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Knoxville's internal control over financial reporting and compliance.

*Martens + Company, CPA, LLP*

West Des Moines, Iowa  
November 19, 2015

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Knoxville provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2015 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 10.2%, or approximately \$706,000 from fiscal year 2014 to fiscal year 2015. The City did not issue any general obligation bonds during fiscal year 2015. Charges for service increased approximately \$152,000, tax increment financing increased \$177,000, and other city tax increased \$108,000.
- Disbursements of the City's governmental activities decreased 3.1%, or approximately \$249,400 in fiscal year 2015. Payments for capital projects decreased approximately \$767,000 while debt service and community and economic development disbursements increased approximately \$46,800 and \$154,700, respectively.
- Receipts of the City's business type activities increased 141.80%, or approximately \$3,908,200, primarily due to the approximately \$995,000 in grant proceeds received during fiscal year 2015 and the sale of 3,180,000 sewer refunding bonds.
- Disbursements for business type activities increased 107.9%, or approximately \$2,622,900, due to an increase of approximately \$2,469,600 in capital projects and an increase of approximately \$355,000 in debt service.
- The City's total cash basis net position increased 30.7% or approximately \$1,314,000, from June 30, 2014 to June 30, 2015. Of this amount, the net position of the governmental activities decreased approximately \$388,000 and net position of the business type activities increased approximately \$1,702,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consist of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about nonmajor governmental and Internal Service funds, capital project funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property taxes and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system and municipal airport. These activities are financed primarily by user fees and related charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Local Option Sales Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Funds. The government fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the airport and the sanitary sewer operations. The Sanitary Sewer Fund is considered to be a major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliation between the government-wide financial statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities has decreased from a year ago, decreasing from approximately \$5.295 million to \$4.907 million. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

| Changes in Cash Basis Net Position of Governmental Activities |                     |                     |
|---|---------------------|---------------------|
|   | Year ended June 30  |                     |
|   | 2015                | 2014                |
| Receipts:   |                     |                     |
| Program receipts:   |                     |                     |
| Charges for service   | \$ 1,054,408        | \$ 902,534          |
| Operating grants, contributions and restricted interest       | 1,186,839           | 825,006             |
| Capital grants, contributions and restricted interest         | 131,616             | 128,245             |
| General receipts:   |                     |                     |
| Property tax  | 2,959,963           | 3,086,301           |
| Tax increment financing                                       | 531,120             | 354,277             |
| Other city tax  | 1,684,688           | 1,576,472           |
| Unrestricted interest on investments                          | 3,643               | 6,352               |
| Sale of salvage   | 14,545              | -                   |
| Other general receipts  | 37,319              | 18,990              |
| Total receipts  | <u>7,604,141</u>    | <u>6,898,177</u>    |
| Disbursements:  |                     |                     |
| Public safety   | 2,097,342           | 1,888,587           |
| Public works  | 700,556             | 707,469             |
| Culture and recreation  | 1,107,715           | 1,085,818           |
| Community and economic development                            | 349,533             | 194,795             |
| General government  | 661,544             | 568,651             |
| Debt service  | 1,558,643           | 1,511,847           |
| Capital projects  | 1,425,184           | 2,192,714           |
| Total disbursements   | <u>7,900,517</u>    | <u>8,149,881</u>    |
| Change in cash basis net position before transfers            | \$ (296,376)        | (1,251,704)         |
| Transfers, net  | <u>(91,300)</u>     | <u>151,420</u>      |
| Change in cash basis net position                             | (387,676)           | (1,100,284)         |
| Cash basis net position beginning of year                     | 5,295,165           | 6,559,225           |
| Amount reported as Senior Citizen Center                      | <u>-</u>            | <u>(163,776)</u>    |
| Cash basis net position end of year                           | <u>\$ 4,907,489</u> | <u>\$ 5,295,165</u> |

The City's total receipts for governmental activities increased by 10.2% or approximately \$706,000. The total cost of all programs and services decreased approximately \$249,300 or 3.1% with no new programs added this year. The change in receipts is primarily attributable to an increase in program receipts and other city taxes. The major changes in disbursements were due to a decrease in payments for capital projects in fiscal year 2015.

| Changes in Cash Basis Net Position of Business Type Activities |                           |                           |
|--|---------------------------|---------------------------|
|  | Year ended June 30,       |                           |
|  | 2015                      | 2014                      |
| Receipts:  |                           |                           |
| Program receipts:  |                           |                           |
| Charges for service  | \$2,232,142               | \$2,450,892               |
| Capital grants, contributions and restricted interest          | 1,055,485                 | 111,843                   |
| General receipts:  |                           |                           |
| Unrestricted interest on investments                           | 4,210                     | 1,498                     |
| Sewer revenue bond proceeds, net                               | 3,364,553                 | 132,291                   |
| Miscellaneous  | 8,045                     | 59,707                    |
| Total receipts   | <u>6,664,435</u>          | <u>2,756,231</u>          |
| Disbursements:   |                           |                           |
| Sewer  | \$4,524,745               | 2,228,960                 |
| Airport  | <u>529,295</u>            | <u>202,142</u>            |
| Total disbursements  | <u>5,054,040</u>          | <u>2,431,102</u>          |
| Change in cash basis net position before transfers             | 1,610,395                 | 325,129                   |
| Transfers, net   | <u>91,300</u>             | <u>(151,420)</u>          |
| Change in cash basis net position                              | 1,701,695                 | 173,709                   |
| Cash basis net position beginning of year                      | <u>4,470,692</u>          | <u>4,296,983</u>          |
| Cash basis net position end of year                            | <u><u>\$6,172,387</u></u> | <u><u>\$4,470,692</u></u> |

The total business type activities cash balance increased \$1,702,000 from the prior year to a year end balance of approximately \$6,172,400. The increase in the cash balance was due primarily to issuing new sewer construction bonds.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Knoxville completed the year, its governmental funds reported a combined fund balance of \$4,133,573, a decrease of \$480,181 over last year's total of \$4,613,754. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$442,798 from the prior year to a year-end balance of \$1,155,516. Intergovernmental receipts increased approximately \$106,500, charges for service increased approximately \$97,000 and licenses and permits increased approximately \$55,000.
- The Special Revenue, Road Use Tax Fund cash balance increased approximately \$141,500 to a year-end balance of \$325,667, due primarily to decreased disbursements.

- The Special Revenue, Local Option Sales Tax (LOST) Fund cash balance increased approximately \$134,300 to a year-end balance of \$657,342. The increase is due to decreased funds used for capital projects and an increase in sales tax receipts.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased approximately \$47,200 to a year-end balance of \$52,696. Tax increment financing receipts increased approximately \$176,800 and disbursements increased \$93,100 due to increased debt service payments.
- The Debt Service Fund cash balance increased approximately \$9,600 to a year-end balance of \$108,467.
- The Capital Projects Fund cash balance decreased approximately \$1,232,300 to a year-end balance of \$949,976. Disbursements decreased approximately \$796,300 due to completion of the street scape project and no increase in receipts.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased approximately \$2,018,000 to a year-end balance of \$6,051,899. Operating disbursements decreased approximately \$203,500. Operating receipts decreased approximately \$213,400. The current year bond proceeds were from the State Revolving Fund and the sale of \$3,180,000 in refunding bonds. A grant was received in the amount of \$995,000. \$4,319,011 of the sewer cash balances are being held in escrow to retire the 2008 sewer revenue bonds in June, 2016.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend its operating budget.

The City's receipts were \$196,082 less than budgeted. Intergovernmental receipts were \$475,497 more than budgeted, uses of money and property were \$88,840 less than budgeted, property tax was \$60,456 less than budgeted and miscellaneous receipts were \$983,544 less than budgeted.

Total disbursements were approximately \$926,400 less than budgeted. The City exceeded the budget for the public safety, public works, general government, debt service and business activity functions for the year ended June 30, 2015. Actual disbursements were less than budgeted for the culture and recreation, community and economic development and capital projects by approximately \$45,800, \$372,100 and \$1,004,400, respectively.

## DEBT ADMINISTRATION

At June 30, 2015, the City had \$17,100,453 in bonds, notes and other long-term debt outstanding, compared to \$15,536,460 last year. The chart below segregates the City's debt into its component parts.

| Outstanding Debt at Year-End<br>(Expressed in Thousands) |                  |                  |
|--|------------------|------------------|
|  | June 30          |                  |
|  | 2015             | 2014             |
| General obligation bonds                                 | \$ 5,350         | \$ 6,150         |
| General obligation capital loan notes                    | 1,205            | 1,360            |
| Sewer revenue bonds                                      | 10,545           | 7,985            |
| Capital lease  | -                | 41               |
| Total  | <u>\$ 17,100</u> | <u>\$ 15,536</u> |

The City's general obligation bond rating carries an A-2 rating and the sewer revenue bonds rating carries an A-1 rating, a rating that has been assigned by National Rating Agencies to the City's debt. Debt changed as a result of the issuance of draw downs on the sewer wastewater treatment revenue bonds and the issuance of sewer refunding bonds.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$6,710,887 (including \$1,360,887 of development and rebate agreements) is below its constitutional debt limit of approximately \$16 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Unemployment in the City now stands at 3.3% versus 4.0% a year ago. This compares with the State's unemployment rate of 3.7 and the national rate of 5.3%.

The U.S. Consumer Price Index (CPI) is a measure of the change in retail prices of a fixed market grouping of consumer goods and services. The CPI-U for July 2014 was 232.68. For the 12 month period that ended in July, 2015 the CPI-U increased 1.70 percent.

The fiscal year 2015 levy is \$15.89683 per \$1,000 of taxable valuation. The City has reached its General Fund levy limit of \$8.10 per \$1,000 of taxable valuation. There was no emergency fund levy for fiscal year 2015. Special Revenue Fund levies have long been in place to support employee benefit costs.

These parameters were taken into account when adopting the budget for fiscal year 2015.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Harold Stewart, City Manager, 305 S. Third Street, Knoxville, IA 50138.

**City of Knoxville**

## **Basic Financial Statements**

**CITY OF KNOXVILLE**

**Cash Basis Statement of Activities and Net Position**

As of and for the year ended June 30, 2015

|  | Disbursements        | Program Receipts       |  |   |
|--|----------------------|------------------------|--|---|
|  |                      | Charges<br>for Service | Operating Grants<br>Contributions and<br>Restricted Interest | Capital Grants,<br>Contributions and<br>Restricted Interest |
| <b>Functions/Programs:</b>                             |                      |                        |  |   |
| Governmental activities:                               |                      |                        |  |   |
| Public safety  | \$ 2,097,342         | \$ 620,094             | \$ 178,584   | \$ -  |
| Public works   | 700,556              | 2,832                  | 764,435  | -   |
| Culture and recreation                                 | 1,107,715            | 308,353                | 83,364   | -   |
| Community and economic development                     | 349,533              | 104,658                | 131,371  | -   |
| General government                                     | 661,544              | 18,471                 | 29,085   | -   |
| Debt service   | 1,558,643            | -                      | -  | -   |
| Capital projects                                       | 1,425,184            | -                      | -  | 131,616   |
| Total governmental activities                          | <u>7,900,517</u>     | <u>1,054,408</u>       | <u>1,186,839</u>   | <u>131,616</u>  |
| Business type activities:                              |                      |                        |  |   |
| Sewer  | 4,524,745            | 2,159,498              | -  | 995,000   |
| Airport  | 529,295              | 72,644                 | -  | 60,485  |
| Total business type activities                         | <u>5,054,040</u>     | <u>2,232,142</u>       | <u>-</u>   | <u>1,055,485</u>  |
| Total  | <u>\$ 12,954,557</u> | <u>\$3,286,550</u>     | <u>\$1,186,839</u>   | <u>\$1,187,101</u>  |
| <b>General receipts and transfers:</b>                 |                      |                        |  |   |
| Property and other city tax levied for:                |                      |                        |  |   |
| General purposes                                       |                      |                        |  |   |
| Debt service   |                      |                        |  |   |
| Special assessments                                    |                      |                        |  |   |
| Tax increment financing                                |                      |                        |  |   |
| Other city tax   |                      |                        |  |   |
| Unrestricted interest on investments                   |                      |                        |  |   |
| Sewer revenue bonds proceeds                           |                      |                        |  |   |
| Bond discount  |                      |                        |  |   |
| Miscellaneous  |                      |                        |  |   |
| Transfers  |                      |                        |  |   |
| Total general receipts and transfers                   |                      |                        |  |   |
| Change in cash basis net position                      |                      |                        |  |   |
| Cash basis net position beginning of year, as restated |                      |                        |  |   |
| Cash basis net position end of year                    |                      |                        |  |   |
| <b>Cash Basis Net Position</b>                         |                      |                        |  |   |
| Restricted for:  |                      |                        |  |   |
| Nonexpendable:   |                      |                        |  |   |
| Permanent funds  |                      |                        |  |   |
| Expendable:  |                      |                        |  |   |
| Streets  |                      |                        |  |   |
| Local option sales tax                                 |                      |                        |  |   |
| Urban renewal purposes                                 |                      |                        |  |   |
| Debt service   |                      |                        |  |   |
| Capital projects                                       |                      |                        |  |   |
| Other purposes   |                      |                        |  |   |
| Unrestricted   |                      |                        |  |   |
| <b>Total cash basis net position</b>                   |                      |                        |  |   |

See notes to financial statements.

| Net (Disbursements) Receipts and Changes<br>in Cash Basis Net Position |                             |               |
|--|-----------------------------|---------------|
| Governmental<br>Activities   | Business Type<br>Activities | Total         |
| \$ (1,298,664)   | \$ -                        | \$(1,298,664) |
| 66,711   | -                           | 66,711        |
| (715,998)  | -                           | (715,998)     |
| (113,504)  | -                           | (113,504)     |
| (613,988)  | -                           | (613,988)     |
| (1,558,643)  | -                           | (1,558,643)   |
| (1,293,568)  | -                           | (1,293,568)   |
| (5,527,654)  | -                           | (5,527,654)   |
| -  | (1,370,247)                 | (1,370,247)   |
| -  | (396,166)                   | (396,166)     |
| -  | (1,766,413)                 | (1,766,413)   |
| (5,527,654)  | (1,766,413)                 | (7,294,067)   |
| 2,187,493  | -                           | 2,187,493     |
| 764,973  | -                           | 764,973       |
| 7,497  | -                           | 7,497         |
| 531,120  | -                           | 531,120       |
| 1,684,688  | -                           | 1,684,688     |
| 3,643  | 4,210                       | 7,853         |
| -  | 3,380,453                   | 3,380,453     |
| -  | (15,900)                    | (15,900)      |
| 51,864   | 8,045                       | 59,909        |
| (91,300)   | 91,300                      | -             |
| 5,139,978  | 3,468,108                   | 8,608,086     |
| (387,676)  | 1,701,695                   | 1,314,019     |
| 5,295,165  | 4,470,692                   | 9,765,857     |
| \$ 4,907,489   | \$ 6,172,387                | \$11,079,876  |
| \$ 263,083   | \$ -                        | \$ 263,083    |
| 325,667  | -                           | 325,667       |
| 657,342  | -                           | 657,342       |
| 52,696   | -                           | 52,696        |
| 108,467  | 5,119,882                   | 5,228,349     |
| 960,221  | -                           | 960,221       |
| 628,871  | -                           | 628,871       |
| 1,911,142  | 1,052,505                   | 2,963,647     |
| \$ 4,907,489   | \$ 6,172,387                | \$11,079,876  |

**CITY OF KNOXVILLE**

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
*Governmental Funds*

As of and for the year ended June 30, 2015

|   | General             | Special Revenue   |                           |                                |
|---|---------------------|-------------------|---------------------------|--------------------------------|
|   |                     | Road<br>Use Tax   | Local Option<br>Sales Tax | Urban Renewal<br>Tax Increment |
| Receipts:   |                     |                   |                           |                                |
| Property tax  | \$1,526,893         | \$ -              | \$ -                      | \$ -                           |
| Tax increment financing                                       | -                   | -                 | -                         | 531,120                        |
| Other City tax  | 784,858             | -                 | 852,184                   | -                              |
| Licenses and permits  | 84,821              | -                 | -                         | -                              |
| Use of money and property                                     | 36,062              | -                 | -                         | 248                            |
| Intergovernmental   | 190,772             | 760,424           | -                         | -                              |
| Charges for service   | 969,587             | -                 | -                         | -                              |
| Special assessments   | 7,497               | -                 | -                         | -                              |
| Miscellaneous   | 203,104             | 4,011             | -                         | -                              |
| Total receipts  | 3,803,594           | 764,435           | 852,184                   | 531,368                        |
| Disbursements:  |                     |                   |                           |                                |
| Operating:  |                     |                   |                           |                                |
| Public safety   | 1,608,579           | -                 | 254,450                   | -                              |
| Public works  | 45,381              | 622,972           | 413                       | -                              |
| Culture and recreation  | 931,908             | -                 | 26,290                    | -                              |
| Community and economic development                            | 324,655             | -                 | 2,345                     | -                              |
| General government  | 424,118             | -                 | 4,170                     | -                              |
| Debt service  | -                   | -                 | -                         | 461,188                        |
| Capital projects  | -                   | -                 | 61,212                    | -                              |
| Total disbursements   | 3,334,641           | 622,972           | 348,880                   | 461,188                        |
| Excess (deficiency) of receipts<br>over (under) disbursements | 468,953             | 141,463           | 503,304                   | 70,180                         |
| Other financing sources (uses):                               |                     |                   |                           |                                |
| Transfers in  | 42,145              | -                 | -                         | -                              |
| Transfers out   | (68,300)            | -                 | (368,980)                 | (23,000)                       |
| Total other financing sources (uses)                          | (26,155)            | -                 | (368,980)                 | (23,000)                       |
| Change in cash balances                                       | 442,798             | 141,463           | 134,324                   | 47,180                         |
| Cash balances beginning of year, as restated                  | 712,718             | 184,204           | 523,018                   | 5,516                          |
| Cash balances end of year                                     | <u>\$1,155,516</u>  | <u>\$ 325,667</u> | <u>\$ 657,342</u>         | <u>\$ 52,696</u>               |
| <b>Cash Basis Fund Balances</b>                               |                     |                   |                           |                                |
| Nonspendable  | \$ -                | \$ -              | \$ -                      | \$ -                           |
| Restricted for:   |                     |                   |                           |                                |
| Streets   | -                   | 325,667           | -                         | -                              |
| Debt service  | -                   | -                 | -                         | -                              |
| Other purposes  | -                   | -                 | 657,342                   | 52,696                         |
| Unassigned  | 1,155,516           | -                 | -                         | -                              |
| Total cash basis fund balances                                | <u>\$ 1,155,516</u> | <u>\$ 325,667</u> | <u>\$ 657,342</u>         | <u>\$ 52,696</u>               |

See notes to financial statements.

| Debt<br>Service | Capital<br>Projects | Nonmajor   | Total        |
|-----------------|---------------------|------------|--------------|
| \$ 764,973      | \$ -                | \$ 660,600 | \$ 2,952,466 |
| -               | -                   | -          | 531,120      |
| 15,243          | -                   | 32,403     | 1,684,688    |
| -               | -                   | -          | 84,821       |
| -               | 14                  | 429        | 36,753       |
| -               | -                   | -          | 951,196      |
| -               | -                   | -          | 969,587      |
| -               | -                   | -          | 7,497        |
| -               | 131,602             | 31,749     | 370,466      |
| 780,216         | 131,616             | 725,181    | 7,588,594    |
| -               | -                   | 411,502    | 2,274,531    |
| -               | -                   | 79,639     | 748,405      |
| -               | -                   | 137,539    | 1,095,737    |
| -               | -                   | 24,878     | 351,878      |
| -               | -                   | 94,809     | 523,097      |
| 1,097,455       | -                   | -          | 1,558,643    |
| -               | 1,363,972           | -          | 1,425,184    |
| 1,097,455       | 1,363,972           | 748,367    | 7,977,475    |
| (317,239)       | (1,232,356)         | (23,816)   | (388,881)    |
| 353,980         | -                   | -          | 396,125      |
| (27,145)        | -                   | -          | (487,425)    |
| 326,835         | -                   | -          | (91,300)     |
| 9,596           | (1,232,356)         | (23,186)   | (480,181)    |
| 98,871          | 2,182,332           | 907,095    | 4,613,754    |
| \$ 108,467      | \$ 949,976          | \$ 883,909 | \$ 4,133,573 |
| \$ -            | \$ -                | \$ 263,083 | \$ 263,083   |
| -               | -                   | -          | 325,667      |
| 108,467         | -                   | -          | 108,467      |
| -               | 960,221             | 628,871    | 2,299,130    |
| -               | (10,245)            | (8,045)    | 1,137,226    |
| \$ 108,467      | \$ 949,976          | \$ 883,909 | \$ 4,133,573 |

## CITY OF KNOXVILLE

Reconciliation of the Statement of Cash Receipts,  
Disbursements and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
*Governmental Funds*

As of and for the year ended June 30, 2015

**Total governmental funds cash balances (pages 18-19)** \$ 4,133,573

***Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health and property insurance and equipment and building replacement to individual funds. A portion of the cash balance of the Internal Service Funds are included in governmental activities in the Cash Basis Statement of Activities and Net Position.

773,916

**Cash basis net position of governmental activities (pages 16 -17)** \$ 4,907,489

**Change in cash balances (pages 18-19)** (480,181)

***Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of health and property insurance and equipment and building replacement to individual funds. A portion of the change in cash balance of the Internal Service Fund is reported with government activities in the Cash Basis Statement of Activities and Net Position.

92,505

**Change in cash basis net position of governmental activities (pages 16-17)** \$ (387,676)

See notes to financial statements.

## CITY OF KNOXVILLE

Statement of Cash Receipts, Disbursements and  
Changes in Cash Balances  
*Proprietary Funds*

As of and for the year ended June 30, 2015

|   | Enterprise   |              |              |              |
|---|--------------|--------------|--------------|--------------|
|   | Nonmajor     |              |              | Internal     |
|   | Sewer        | Airport      | Total        | Service      |
| Operating receipts:   |              |              |              |              |
| Charges for service   | \$ 2,159,498 | \$ 72,644    | \$2,232,142  | \$ 481,462   |
| Total operating receipts  | 2,159,498    | 72,644       | 2,232,142    | 481,462      |
| Operating disbursements:  |              |              |              |              |
| Governmental activities:  |              |              |              |              |
| Public safety   | -            | -            | -            | 77,261       |
| Public works  | -            | -            | -            | 41,061       |
| Culture and recreation  | -            | -            | -            | 38,268       |
| General Government  | -            | -            | -            | 214,191      |
| Business type activities:   | 848,844      | 110,679      | 959,523      | 22,246       |
| Total operating disbursements   | 848,844      | 110,679      | 959,523      | 393,027      |
| Excess (deficiency) of operating receipts<br>over (under) operating disbursements | 1,310,654    | (38,035)     | 1,272,619    | 88,435       |
| Non-operating receipts (disbursements):   |              |              |              |              |
| Intergovernmental   | 995,000      | 60,485       | 1,055,485    | -            |
| Sale of capital assets  | -            | -            | -            | 14,545       |
| Interest on investments   | 4,210        | -            | 4,210        | 1,002        |
| Miscellaneous   | 8,045        | -            | 8,045        | -            |
| Revenue bond proceeds   | 3,380,453    | -            | 3,380,453    | -            |
| Bond discount   | (15,900)     | -            | (15,900)     | -            |
| Capital projects  | (2,551,018)  | (418,616)    | (2,969,634)  | -            |
| Debt service  | (1,136,360)  | -            | (1,136,360)  | -            |
| Net non-operating receipts (disbursements)  | 684,430      | (358,131)    | 326,299      | 15,547       |
| Excess (deficiency) of receipts over<br>(under) disbursements                     | 1,995,084    | (396,166)    | 1,598,918    | 103,982      |
| Transfers:  |              |              |              |              |
| Transfers in  | 23,000       | 68,300       | 91,300       | -            |
| Transfers (out)   | -            | -            | -            | -            |
| Net transfers   | 23,000       | 68,300       | 91,300       | -            |
| Change in cash balances   | 2,018,084    | (327,866)    | 1,690,218    | 103,982      |
| Cash balances beginning of year   | 4,033,805    | (273,613)    | 3,760,192    | 1,391,909    |
| Cash balances end of year   | \$ 6,051,889 | \$ (601,479) | \$ 5,450,410 | \$ 1,495,891 |
| <b>Cash Basis Fund Balances</b>   |              |              |              |              |
| Restricted for:   |              |              |              |              |
| Debt service  | \$ 4,319,011 | \$ -         | \$ 4,319,011 | \$ -         |
| Unrestricted  | 1,732,878    | (601,479)    | 1,131,399    | 1,495,891    |
| Total cash basis fund balances  | \$ 6,051,889 | \$ (601,479) | \$ 5,450,410 | \$ 1,495,891 |

See notes to financial statements.

## CITY OF KNOXVILLE

Reconciliation of the Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
*Proprietary Funds*

As of and for the year ended June 30, 2015

**Total enterprise funds cash balances (page 21)** \$ 5,450,410

*Amounts reported for business type activities in the Cash Basis Statement of  
Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health and property insurance and equipment and building replacement to individual funds. A portion of the cash balance of the Internal Service Funds is included in business type activities in the Cash Basis Statement of Activities and Net Position.

721,977

**Cash basis net assets of business type activities (pages 16 -17)** \$ 6,172,387

**Change in cash balances (page 21)** \$ 1,690,218

*Amounts reported for business type activities in the Cash Basis Statement of  
Activities and Net Position are different because:*

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health and property insurance and equipment and building replacement to individual funds. A portion of the change in cash balance of the Internal Service Funds is included in business type activities in the Cash Basis Statement of Activities and Net Position.

11,477

**Change in cash basis net position of business type activities (pages 16 - 17)** \$ 1,701,695

See notes to financial statements.

# CITY OF KNOXVILLE

## Notes to Financial Statements

June 30, 2015

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Knoxville is a political subdivision of the State of Iowa located in Marion County. It was first incorporated in 1853 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides sewer utilities and airport services for its citizens.

#### A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City of Knoxville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Knoxville (the primary government) and exclude some of the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationship with the City is significant.

#### Excluded Component Units

The Knoxville Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

The Fire/Rescue Association of Knoxville, Iowa was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The Association's Board of Trustees shall be a minimum of three and not more than seven in number.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

##### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Marion County Assessor's Conference Board, Marion County Emergency Management Commission, Marion County Joint E911 Service Board, Marion County/Warren County Drug Task Force, Marion County for Public Safety Dispatch and Communications Operation and Central Iowa Regional Transportation Planning Alliance.

##### Related Organization

The City Council members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

#### B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of the interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Funds.

*Expendable restricted net position* result when constraints placed the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on resources imposed by management, which can be removed or modified.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those that are clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax and related construction projects authorized by the local option sales tax resolution.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The City also reports the following proprietary funds:

The Airport Fund accounts for the operation and maintenance of the City's airport system.

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

##### C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

##### D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

##### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety, general government, debt service and business type activity functions.

#### (2) CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2015, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,159,152 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in Iowa Public Agency Investment Trust is unrated.

#### (3) BONDS AND NOTES PAYABLE

The following is a summary of the changes in the outstanding long-term debt of the City for the year ended June 30, 2015:

|                           | Balance<br>June 30, 2014 | Issued       | Redeemed    | Balance<br>June 30, 2015 |
|---------------------------|--------------------------|--------------|-------------|--------------------------|
| Governmental activities:  |                          |              |             |                          |
| General obligation bonds  | \$ 6,150,000             | \$ -         | \$ 800,000  | \$ 5,350,000             |
| General obligation notes  | 1,360,000                | -            | 155,000     | 1,205,000                |
| Ambulance Capital Lease   | 41,460                   | -            | 41,460      | -                        |
| Total                     | \$ 7,551,460             | \$ -         | \$ 996,460  | \$ 6,555,000             |
| Business type activities: |                          |              |             |                          |
| Revenue bonds             | \$ 7,985,000             | \$ 3,380,453 | \$ 820,000  | \$10,545,453             |
| Total                     | \$15,536,460             | \$ 3,380,453 | \$1,816,460 | \$17,100,453             |

Interest rates range from .50% to 4.05% on the general obligation bonds and notes. The revenue bond interest rates are from 1.75% to 4.85%. The City paid \$448,133 in interest on debt obligations for the year ended June 30, 2015.

# CITY OF KNOXVILLE

## Notes to Financial Statements - Continued

June 30, 2015

### (3) BONDS AND NOTES PAYABLE - CONTINUED

Debt service requirements for general obligations, capital loan notes and revenue bonds are as follows:

| Year<br>Ending<br>June 30, | Bonds              |                  | General Obligation<br>Capital Loan Notes |                  | Sewer Revenue Bonds |                    | Total               |                    |
|----------------------------|--------------------|------------------|--|------------------|---------------------|--------------------|---------------------|--------------------|
|                            | Principal          | Interest         | Principal                                | Interest         | Principal           | Interest           | Principal           | Interest           |
| 2016                       | \$ 715,000         | \$ 87,005        | \$ 210,000                               | \$ 40,421        | \$ 4,945,453        | \$ 361,488         | \$ 5,870,453        | \$ 488,914         |
| 2017                       | 735,000            | 79,940           | 220,000                                  | 33,001           | 505,000             | 138,170            | 1,460,000           | 251,111            |
| 2018                       | 745,000            | 70,245           | 220,000                                  | 25,111           | 382,000             | 127,430            | 1,347,000           | 222,786            |
| 2019                       | 765,000            | 60,432           | 235,000                                  | 17,146           | 386,000             | 120,910            | 1,386,000           | 198,488            |
| 2020                       | 780,000            | 47,998           | 75,000                                   | 8,640            | 400,000             | 113,620            | 1,255,000           | 170,258            |
| 2021-2025                  | 1,610,000          | 61,585           | 245,000                                  | 13,368           | 2,214,000           | 426,571            | 4,069,000           | 501,524            |
| 2026-2030                  | -                  | -                | -  | -                | 1,528,000           | 135,650            | 1,528,000           | 135,650            |
| 2031                       | -                  | -                | -  | -                | 185,000             | 5,550              | 185,000             | 5,550              |
|                            | <u>\$5,350,000</u> | <u>\$407,205</u> | <u>\$1,205,000</u>                       | <u>\$137,687</u> | <u>\$10,545,453</u> | <u>\$1,429,389</u> | <u>\$17,100,453</u> | <u>\$1,974,281</u> |

#### Sewer Revenue Bonds

On February 16, 2010, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, Iowa N.A. for the issuance of \$2,756,000 of sewer revenue bonds with interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A of Code of Iowa and the American Recovery and Reinvestment Act of 2009 for the purpose of providing funds to pay a portion of the costs of constructing improvements and extensions to the municipal sanitary sewer system of the City. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. An initiation fee of 1%, or \$27,560, of the authorized borrowing for the sewer revenue bonds was charged by the Iowa Finance Authority and withheld during the year ended June 30, 2010. During the year ended June 30, 2014, the City had drawn down to a final loan amount of \$2,216,056 of the authorized amount. A final repayment schedule has been adopted. During the year ended June 30, 2015, the City paid \$20,000 principal and \$65,850 of interest on these bonds.

On June 19, 2015, the City entered into an agreement with the Iowa Finance Authority and the Iowa Department of Natural Resources for the issuance of \$2,518,000 of Sewer Revenue Bonds as a means of financing all or part of the construction of certain wastewater treatment facilities. Proceeds of the loan shall be made available to the City in the form of one or more periodic disbursements by providing a completed payment request and evidence that costs have been incurred. During the year ended June 30, 2015, the City received \$200,453 of the authorized amount.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$10,545,453 of sewer revenue bonds issued in December 2008, February 2010, March 2010 and April 2015. Proceeds from the bonds provided financing for the construction of improvements to the municipal sanitary sewer system of the City and refunded the City's outstanding Series 2002 sewer revenue bonds. The bonds are payable solely from sewer customer net receipts and are payable through 2028. Annual principal and interest payments on the bonds are expected to require less than 50% of net receipts. The total principal and interest remaining to be paid on the bonds is \$13,428,479. For the current year, principal and interest paid and total customer net receipts were \$1,125,723 and \$1,279,434 respectively.

## **CITY OF KNOXVILLE**

### **Notes to Financial Statements - Continued**

June 30, 2015

#### **(3) BONDS AND NOTES PAYABLE - CONTINUED**

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.
- (c) Additional monthly transfers shall be made to a sewer revenue reserve account until a specific minimum balances has been accumulated. This account is restricted for the purpose of paying, at maturity, principal or interest on the bonds when insufficient money shall be available in the sinking account.
- (d) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the average annual installments or principal and interest on the bonds falling due in the same year.

#### **(4) CROSSOVER REFUNDING**

Bids to purchase \$3,180,000 Sewer Revenue Refunding Bonds, Series 2015A (the "Bonds") were received March 10, 2015. The Bonds were issued pursuant to Division V of Chapter 384 of the Code of Iowa and a resolution adopted by the City Council of the City of Knoxville, Iowa (the "City"). The Bonds were issued to crossover advance refund on June 1, 2016, \$4,250,000 of the Sewer Revenue Bonds, Series 2008, dated December 10, 2008, maturing 2017 through 2028 (the "Series 2008 Bonds"). A portion of the proceeds of the Bonds were applied toward the expense of the crossover refunding and to establish escrow account to be held by Bankers Trust Company, Des Moines, Iowa (the "Escrow Account"). The amount in the Escrow Account was invested in non-callable direct obligations of the Department of Treasury of the United States of America on which the timely payment of principal and interest is fully guaranteed by the United States of America. The Bonds shall mature in such amounts and at such times to (i) pay interest due on the Bonds to and including June 1, 2016; (ii) prepay the principal amount of the Series 2008 called for redemption on June 1, 2016. At June 30, 2015 the City had \$4,319,011 in the escrow account.

Moody's Investors Service issued a rating of 'A-1' on the bonds.

This results in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$486,800.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (5) PENSION PLANS

##### Iowa Public Employees' Retirement System (IPERS)

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (5) PENSION PLANS - CONTINUED

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$139,379.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$715,132. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.017670 percent, which was an increase of 0.000204 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$53,526, \$39,332 and \$272,731 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|   |   |
|---|---|
| Rate of Inflation<br>(effective June 30, 2014)                      | 3.00 percent per annum  |
| Rates of salary increase<br>(effective June 30, 2010)               | 4.00 to 17.00 percent, average, including inflation. Rates vary by membership group         |
| Long-term investment rate<br>of return<br>(effective June 30, 1996) | 7.50 percent per annum, compounded annually, net of investment expense, including inflation |

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

# CITY OF KNOXVILLE

## Notes to Financial Statements - Continued

June 30, 2015

### (5) PENSION PLANS - CONTINUED

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u>     | <u>Asset Allocation</u> | <u>Long-Term Expected<br/>Real Rate of Return</u> |
|------------------------|-------------------------|---|
| US Equity              | 23%                     | 6.31%   |
| Non US Equity          | 15                      | 6.76  |
| Private Equity         | 13                      | 11.34   |
| Real Estate            | 8                       | 3.52  |
| Core Plus Fixed Income | 28                      | 2.06  |
| Credit Opportunities   | 5                       | 3.67  |
| TIPS                   | 5                       | 1.92  |
| Other Real Assets      | 2                       | 6.27  |
| Cash                   | 1                       | (0.69)  |
| Total                  | <u>100%</u>             |   |

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

|  | 1%<br>Decrease<br><u>(6.5%)</u> | Discount<br>Rate<br><u>(7.5%)</u> | 1%<br>Increase<br><u>(8.5%)</u> |
|--|---------------------------------|-----------------------------------|---------------------------------|
| City's proportionate share of the<br>net pension liability | \$1,351,222                     | \$715,132                         | \$178,206                       |

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (5) PENSION PLANS - CONTINUED

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

#### Municipal Fire and Police Retirement System of Iowa (MFPRSI)

Plan Description - MFPRSI membership is mandatory for fire fighters and police officers covered by the provisions of Chapter 411 of the Code of Iowa. Employees of the City of Knoxville are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by MFPRSI. MFPRSI issued a stand-alone financial report which is available to the public by mail at 7155 Lake Drive, Suite #201, West Des Moines, Iowa 50266 or at [www.mfprsi.org](http://www.mfprsi.org).

MFPRSI benefits are established under Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules thereunder. Chapter 411 of the Code of Iowa and the administrative rules are the official plan documents. The following brief description is provided for general information purposes only. Refer to the plan documents for more information.

Pension Benefits - Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (i.e., 22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest, for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66 percent of the member's average final compensation. Additional benefits are available to members who perform more than 22 years of service (2 percent for each additional year of service, up to a maximum of 8 years). Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50 percent surviving spouse benefit.

Active members, at least 55 years of age, with 22 or more years of service have the option to participate in the Deferred Retirement Option Program (DROP). The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4, or 5 year DROP period. By electing to participate in DROP the member is signing a contract indicating the member will retire at the end of the selected DROP period. During the DROP period the member's retirement benefit is frozen and a DROP benefit is credited to a DROP account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP account will be distributed to the member in the form of a lump sum or rollover to an eligible plan.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (5) PENSION PLANS - CONTINUED

Disability and Death Benefits - Disability coverage is broken down into two types, accidental and ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60 percent of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50 percent of the member's average final compensation, for those with 5 or more years of service, or the member's service retirement benefit calculation amount, and 25 percent of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50 percent of the average final compensation for the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40 percent of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50 percent of the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased (escalated) annually in accordance with Chapter 411.6 of the Code of Iowa which states a standard formula for the increases.

The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

Contributions - Member contribution rates are set by state statute. In accordance with Chapter 411 of the Code of Iowa as modified by act of the 1994 General Assembly, to establish compliance with the Federal Older Workers Benefit Protections Act, the contribution rate was 9.40% of earnable compensation for the year ended June 30, 2015.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the actuarial liabilities of the plan less current plan assets, with such total divided by 1 percent of the actuarially determined present value of prospective future compensation of all members, further reduced by member contributions and state appropriations. Under the Code of Iowa the employer's contribution rate cannot be less than 17.00% of earnable compensation. The contribution rate was 30.41% for the year ended June 30, 2015.

The City's contributions to MFPSI for the year ended June 30, 2015 were \$203,389.

If approved by the state legislature, state appropriation may further reduce the employer's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The State of Iowa therefore is considered to be a nonemployer contributing entity in accordance with the provisions of the Governmental Accounting Standards Board Statement No. 67 - Financial Reporting for Pension Plans, (GASB 67).

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (5) PENSION PLANS - CONTINUED

There were no state appropriations to MFRPSI during the fiscal year ended June 30, 2014.

Collective Net Pension Liabilities, Collective Pension Expense and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$923,284. The net collective pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all MFRPSI participating employers. At June 30, 2014, the City's proportion was .254700% which was an increase of .0014173 from its proportions measured as of June 30, 2013.

For the year ended June 30, 2015, the City collective pension expense, collective deferred outflows of resources and collective deferred inflows totaled \$76,634, \$68,240 and \$436,623 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                           |   |
|---------------------------|---|
| Rate of Inflation         | 3.00 percent per annum  |
| Salary increase           | 4.50 to 15.11 percent, including inflation                                |
| Investment rate of return | 7.50 percent, net of pension plan investment expense, including inflation |

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2002 to June 30, 2012.

Mortality rates were based weighting equal to 2/12 of the 1971 GAM table and 10/12 of the 1994 GAM table with no projection of future mortality improvement.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (i.e., expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

# CITY OF KNOXVILLE

## Notes to Financial Statements - Continued

June 30, 2015

### (5) PENSION PLANS - CONTINUED

| <u>Asset Class</u>                | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|-----------------------------------|--------------------------|---|
| Core Plus Fixed Income            | 7.0%                     | 3.8%  |
| Emerging Markets Debt             | 3.0                      | 6.5   |
| Domestic Equities                 | 12.5                     | 6.0   |
| Master Limited Partnerships (MLP) | 5.0                      | 8.5   |
| International Equities            | <u>12.5</u>              | 7.0   |
| <b>Core Investments</b>           | 40.0%                    |   |
| <b>Tactical Asset Allocation</b>  | 35.0                     | 6.0   |
| <b>Private Equity</b>             | 15.0                     | 9.8   |
| Private Non-Core Real Estate      | 5.0                      | 9.3   |
| Private Core Real Estate          | <u>5.0</u>               | 6.8   |
| <b>Real Estate</b>                | <u>10.0</u>              |   |
| Total                             | <u>100.0%</u>            |   |

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flow used to determine the discount rate assumed that contributions will be made at 9.40% of covered payroll and the City contributions will be made at rates equal to the difference between actuarially determined rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the city's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percent lower (6.50 percent) or 1-percent Higher (8.5 percent) than the current rate.

|  | 1%<br>Decrease<br><u>(6.5%)</u> | Discount<br>Rate<br><u>(7.5%)</u> | 1%<br>Increase<br><u>(8.5%)</u> |
|--|---------------------------------|-----------------------------------|---------------------------------|
| City's proportionate share of<br>the net pension liability | \$1,770,323                     | \$923,284                         | \$219,471                       |

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued MFPRSI financial report which is available on MFPRSI's website at [www.mfprsi.org](http://www.mfprsi.org).

### (6) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 48 active and 3 retired members in the plan. Retired participants must be age 55 or older at retirement.

# CITY OF KNOXVILLE

## Notes to Financial Statements - Continued

June 30, 2015

### (6) OTHER POSTEMPLOYMENT BENEFITS (OPEB) - CONTINUED

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$412 for single coverage and \$772 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2015, the City contributed \$149,430 and plan members eligible for benefits contributed \$55,616 to the plan.

### (7) COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and compensation hours for subsequent use or for payment upon termination, retirement, or death. City employees may also accumulate a limited amount of earned but unused sick leave hours for payment of subsequent health benefit costs upon retirement. The City also allows employees to accumulate compensatory time during the fiscal year in lieu of overtime pay. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for these earned holiday, vacation, sick leave and compensatory time payable to employees at June 30, 2015, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u>     |
|------------------------|-------------------|
| Vacation               | \$ 139,445        |
| Sick leave             | 681,635           |
| Compensatory time      | 67,871            |
| Total                  | <u>\$ 888,951</u> |

This liability has been computed based on rates of pay as of June 30, 2015.

### (8) INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u>     |
|--------------------|----------------------|-------------------|
| General            | Special Revenue:     |                   |
|                    | LOST                 | \$ 15,000         |
|                    | Debt Service         | 27,145            |
| Debt Service       | Special Revenue:     |                   |
|                    | LOST                 | 353,980           |
| Enterprise:        |                      |                   |
| Airport            | General Fund         | 68,300            |
| Sewer              | Special Revenue:     |                   |
|                    | Urban Renewal TIF    | <u>23,000</u>     |
| Total              |                      | <u>\$ 487,425</u> |

## **CITY OF KNOXVILLE**

### **Notes to Financial Statements - Continued**

June 30, 2015

#### **(8) INTERFUND TRANSFERS - CONTINUED**

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

#### **(9) RISK MANAGEMENT**

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 727 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of basis rates.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2015 were \$137,364.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location. Property risks exceeding \$250,000 are reinsured through reinsurance and excess risk-sharing agreements up to the amount of risk-sharing protection provided by the City's risk-sharing certificate.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim, property loss or series of claims or losses exceeds the amount of risk-sharing protection provided by the City's risk-sharing certificate, or in the event a casualty claim, property loss or series of claims or losses exhausts the Pool's funds and any reinsurance and any excess risk-sharing recoveries, then payment of such claims or losses shall be the obligation of the respective individual member against whom the claim was made or the loss was incurred.

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (9) RISK MANAGEMENT - CONTINUED

The City does not disclose a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been disclosed in the City's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Upon withdrawal, a formula set forth in the Pool's intergovernmental contract with its members is applied to determine the amount (if any) to be refunded to the withdrawing member.

The City also carries commercial insurance purchased from other insurers for coverage associated with workers' compensation, employee blanket bond and aviation liability the amount of \$1,000,000, \$100,000 and \$2,000,000, respectively. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### (10) DEFICIT BALANCES

The City had deficit balances at June 30, 2015 as follows:

| Fund             | Amount    |
|------------------|-----------|
| Enterprise:      |           |
| Airport          | \$601,479 |
| Governmental:    |           |
| Special Revenue: |           |
| K-9 Unit Program | 8,045     |

#### (11) CONSTRUCTION CONTRACTS

At June 30, 2015, the City had entered into construction contracts of approximately \$6,514,000 for various projects. At June 30, 2015 these projects will require future payments of approximately \$1,670,000 upon completion.

#### (12) DEVELOPMENT AND REBATE AGREEMENTS

In prior years, the City entered into development and rebate agreements to assist in certain urban renewal projects. The City agreed to rebate incremental property tax paid by the developers in exchange for infrastructure improvements, rehabilitation and development of commercial projects constructed by the developers as set forth in the urban renewal plan and the individual development and rebate agreements. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the

## CITY OF KNOXVILLE

### Notes to Financial Statements - Continued

June 30, 2015

#### (12) DEVELOPMENT AND REBATE AGREEMENTS - CONTINUED

developers will be rebated for a period ranging from ten to twenty years, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. Certain agreements include provisions for payment of interest.

During the year ended June 30, 2015, the City rebated \$461,188 of incremental property tax to the developers, consisting of \$442,286 for principal and \$18,902 for interest. The outstanding principal balance on these agreements at June 30, 2015 is \$2,335,716.

No bonds or notes were issued for these projects. To the extent there is insufficient incremental property tax available on any payment date to make the required scheduled payment, the unpaid amount shall be carried over to the next payment date without accruing any further interest.

These agreements are not a general obligation of the City. However, the debt payment in the succeeding year on one agreement with an annual appropriation clause and all of the amounts to be rebated for the remaining agreements are subject to the constitutional debt limitation of the City.

#### (13) EMPLOYEE HEALTH INSURANCE PLAN

The City maintains a high deduction health insurance policy for their employees through Wellmark Insurance. Total premiums for year ending June 30, 2015 were \$205,046 of which \$149,430 was paid by the City and \$55,616 paid by the employees. Single coverage has a \$5,000 deductible and family is \$10,000.

The City subsidizes 90% of the employee's deductible after the employee pays 10%. The City's liability is a maximum \$4,500 per single coverage and \$9,000 per family coverage. The City pays Group Services Inc. to administer the subsidy. The City paid Group Services Inc. \$175,000 in the year ended June 30, 2015 to pay the City's subsidy obligation. The City also paid Group Services Inc. \$8,917 to administer the claims for subsidy.

#### (14) ACCOUNTING CHANGE/RESTATEMENT

The Senior Citizen Center has been determined to no longer be a part of the City. As a result, the beginning balances have been restated to remove the cash balance of the Center from the City's cash balances. The effect on the General Fund balance is as follows:

|  | <u>General</u>           |
|--|--------------------------|
| Balance June 30, 2014 as previously reported | \$ 876,494               |
| Amount reported as Senior Citizen Center     | <u>(163,776)</u>         |
| Balance July 1, 2014, as restated            | \$ <u><u>712,718</u></u> |

#### (15) SUBSEQUENT EVENTS

The City has evaluated subsequent events through November 19, 2015, the date the financial statements were available to be issued.

## **Other Information**

# CITY OF KNOXVILLE

## Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds Other Information Year ended June 30, 2015

|  | Governmental<br>Funds<br>Actual | Proprietary<br>Funds<br>Actual | Less<br>Funds not<br>Required to<br>Be Budgeted | Total               |
|--|---------------------------------|--------------------------------|---|---------------------|
| Receipts:  |                                 |                                |   |                     |
| Property tax   | \$ 2,952,466                    | \$ -                           | \$ -  | \$ 2,952,466        |
| Tax increment financing  | 531,120                         | -                              | -   | 531,120             |
| Other city tax   | 1,684,688                       | -                              | -   | 1,684,688           |
| Licenses and permits   | 84,821                          | -                              | -   | 84,821              |
| Uses of money and property   | 36,753                          | 5,212                          | 1,002   | 40,963              |
| Intergovernmental  | 951,196                         | 1,055,485                      | -   | 2,006,681           |
| Charges for service  | 969,587                         | 2,713,604                      | 481,462   | 3,201,729           |
| Special assessments  | 7,497                           | -                              | -   | 7,497               |
| Miscellaneous  | 370,466                         | 22,590                         | -   | 393,056             |
| Total receipts   | <u>7,588,594</u>                | <u>3,796,891</u>               | <u>482,464</u>                                  | <u>10,903,021</u>   |
| Disbursements:   |                                 |                                |   |                     |
| Public safety  | 2,274,531                       | 77,261                         | 77,261  | 2,274,531           |
| Public works   | 748,405                         | 41,061                         | 41,061  | 748,405             |
| Culture and recreation   | 1,095,737                       | 38,268                         | 38,268  | 1,095,737           |
| Community and economic development   | 351,878                         | -                              | -   | 351,878             |
| General government   | 523,097                         | 214,191                        | 214,191   | 523,097             |
| Debt service   | 1,558,643                       | -                              | -   | 1,558,643           |
| Capital projects   | 1,425,184                       | -                              | -   | 1,425,184           |
| Business type activities   | -                               | 5,087,763                      | 22,246  | 5,065,517           |
| Total disbursements  | <u>7,977,475</u>                | <u>5,458,544</u>               | <u>393,027</u>                                  | <u>13,042,992</u>   |
| Excess (deficiency) of receipts<br>over (under) disbursements  | (388,881)                       | (1,661,653)                    | 89,437  | (2,139,971)         |
| Other financing sources, net   | <u>(91,300)</u>                 | <u>3,455,853</u>               | <u>14,545</u>                                   | <u>3,350,008</u>    |
| Excess (deficiency) of receipts and other<br>financing sources over (under) disbursements and<br>other financing sources | (480,181)                       | 1,794,200                      | 103,982   | 1,210,037           |
| Balances beginning of year, as restated  | <u>4,613,754</u>                | <u>5,152,101</u>               | <u>1,391,909</u>                                | <u>8,373,946</u>    |
| Balances end of year   | <u>\$ 4,133,573</u>             | <u>\$ 6,946,301</u>            | <u>\$ 1,495,891</u>                             | <u>\$ 9,583,983</u> |

See accompanying independent auditor's report.

| Budgeted Amounts |              | Final to<br>Actual<br>Variance-<br>Positive<br>(Negative) |
|------------------|--------------|---|
| Original         | Final        |   |
| \$ 3,012,922     | \$ 3,012,922 | \$ (60,456)   |
| 445,042          | 445,042      | 86,078  |
| 1,529,405        | 1,529,405    | 155,283   |
| 45,985           | 45,985       | 38,836  |
| 129,803          | 129,803      | (88,840)  |
| 1,531,184        | 1,531,184    | 475,497   |
| 3,018,662        | 3,018,662    | 183,067   |
| 9,500            | 9,500        | (2,003)   |
| 1,376,600        | 1,376,600    | (983,544)   |
| 11,099,103       | 11,099,103   | (196,082)   |
| 1,966,448        | 1,966,448    | (308,083)   |
| 728,721          | 728,721      | (19,684)  |
| 1,141,578        | 1,141,578    | 45,841  |
| 723,944          | 723,944      | 372,066   |
| 481,347          | 481,347      | (41,750)  |
| 1,542,498        | 1,542,498    | (16,145)  |
| 2,429,583        | 2,429,583    | 1,004,399   |
| 4,955,289        | 4,955,289    | (110,228)   |
| 13,969,408       | 13,969,408   | 926,416   |
| (2,870,305)      | (2,870,305)  | 730,334   |
| -                | -            | 3,350,008   |
| (2,870,305)      | (2,870,305)  | 4,080,342   |
| 10,799,540       | 10,799,540   | (2,425,594)   |
| \$ 7,929,235     | \$ 7,929,235 | \$ 1,654,748  |

## **CITY OF KNOXVILLE**

### **Notes To Other Information - Budgetary Reporting**

June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the internal service funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, no budget amendments were made.

During the year ended June 30, 2015, disbursements exceeded the amounts budgeted in the public safety, general government, debt service and business type activity functions.

# CITY OF KNOXVILLE

## Schedules of the City's Proportionate Share of the Net Pension Liability Last Fiscal Year (In Thousands)

### Other Information

#### Iowa Public Employees' Retirement System

|  | <u>2015</u> |
|--|-------------|
| City of Knoxville's proportion of the net pension liability  | 0.017670%   |
| City of Knoxville's proportionate share of the net pension liability   | \$ 715      |
| City of Knoxville's covered-employee payroll   | \$ 2,184    |
| City of Knoxville's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 32.73%      |
| Plan fiduciary net position as a percentage of the total pension liability   | 87.61%      |

#### Municipal Fire and Police Retirement System of Iowa

|  | <u>2015</u> |
|--|-------------|
| City of Knoxville's proportion of the net pension liability  | .254700%    |
| City of Knoxville's proportionate share of the net pension liability   | \$ 923      |
| City of Knoxville's covered-employee payroll   | \$ 736      |
| City of Knoxville's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 141.95%     |
| Plan fiduciary net position as a percentage of the total pension liability   | 86.27%      |

\* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

**Note:** GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City of Knoxville will present information for those years for which information is available.

The 2015 liability is based on 2014 IPERS and MFPRS information.

# CITY OF KNOXVILLE

## Schedules of City Contributions

Last 10 Fiscal Years  
(In Thousands)

Other Information

### Iowa Public Employees' Retirement System

|   | <u>2015</u>  | <u>2014</u>  | <u>2013</u>  | <u>2012</u>  |
|---|--------------|--------------|--------------|--------------|
| Statutorily required contribution                                     | \$ 139       | \$ 195       | \$ 157       | \$ 143       |
| Contributions in relation to the<br>statutorily required contribution | <u>(139)</u> | <u>(195)</u> | <u>(157)</u> | <u>(143)</u> |
| Contribution deficiency (excess)                                      | <u>\$ -</u>  | <u>-</u>     | <u>-</u>     | <u>-</u>     |
| City of Knoxville's covered-employee<br>payroll                       | \$ 1,557     | 2,184        | 1,811        | 1,772        |
| Contributions as a percentage of<br>covered-employee payroll          | 8.93%        | 8.93%        | 8.67%        | 8.07%        |

### Municipal Fire and Police Retirement System of Iowa

|   | <u>2015</u>  | <u>2014</u>  | <u>2013</u>  | <u>2012</u>  |
|---|--------------|--------------|--------------|--------------|
| Statutorily required contribution                                     | \$ 203       | \$ 195       | \$ 157       | \$ 143       |
| Contributions in relation to the<br>statutorily required contribution | <u>(203)</u> | <u>(195)</u> | <u>(157)</u> | <u>(143)</u> |
| Contribution deficiency (excess)                                      | <u>\$ -</u>  | <u>-</u>     | <u>-</u>     | <u>-</u>     |
| City of Knoxville's covered-employee<br>payroll                       | \$ 668       | 647          | 601          | 578          |
| Contributions as a percentage of<br>covered-employee payroll          | 30.41%       | 30.12%       | 26.12%       | 24.76%       |

See accompanying independent auditor's report.

| <u>2011</u>     | <u>2010</u>     | <u>2009</u>     | <u>2008</u>     | <u>2007</u>     | <u>2006</u>     |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 101             | 91              | 91              | 73              | 62              | 63              |
| <u>(101)</u>    | <u>(91)</u>     | <u>(91)</u>     | <u>(73)</u>     | <u>(62)</u>     | <u>(63)</u>     |
| <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> |
| 1,453           | 1,368           | 1,433           | 1,207           | 1,078           | 1,097           |
| 6.95%           | 6.65%           | 6.35%           | 6.05%           | 5.75%           | 5.75%           |

| <u>2011</u>     | <u>2010</u>     | <u>2009</u>     | <u>2008</u>     | <u>2007</u>     | <u>2006</u>     |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| 112             | 97              | 103             | 131             | 137             | 135             |
| <u>(112)</u>    | <u>(97)</u>     | <u>(103)</u>    | <u>(131)</u>    | <u>(137)</u>    | <u>(135)</u>    |
| <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>-</u></u> |
| 562             | 570             | 549             | 514             | 494             | 479             |
| 19.90%          | 17.00%          | 18.75%          | 25.48%          | 27.75%          | 28.21%          |

## CITY OF KNOXVILLE

### Notes to Other Information - Pension Liability

Year ended June 30, 2015

#### Iowa Public Employee's Retirement System

##### Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

##### Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual contribution rate.

## CITY OF KNOXVILLE

### Notes to Other Information - Pension Liability - Continued

Year ended June 30, 2015

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

#### Municipal Fire and Police Retirement System of Iowa

##### Changes of benefit terms:

There are no significant changes of benefit terms.

##### Changes of assumptions:

Effective July 1, 2014, two additional steps were taken to phase in the 1994 Group Annuity Mortality Table for post-retirement mortality. The two additional steps result in a weighting of 2/12 of 1971 Group Annuity Mortality Table and 10/12 of the 1994 Group Annuity Mortality Table.

**City of Knoxville**

## **Supplementary Information**

# CITY OF KNOXVILLE

## Schedule of Cash Receipts, Disbursements and Changes in Cash Balances Nonmajor Governmental Funds

As of and for the year ended June 30, 2015

|   | Employee<br>Benefits-<br>Health | Police<br>Retirement | Urban<br>Revitalization | Revolving<br>Loan | Self-<br>Supported<br>Municipal<br>Improvement<br>District |
|---|---------------------------------|----------------------|-------------------------|-------------------|--|
| Receipts:   |                                 |                      |                         |                   |  |
| Property tax  | \$465,458                       | \$180,518            | \$ -                    | \$ -              | \$ 14,624  |
| Other city tax  | 27,181                          | 5,222                | -                       | -                 | -  |
| Use of money and property                                     | 75                              | 149                  | -                       | -                 | -  |
| Miscellaneous   | -                               | -                    | -                       | -                 | -  |
| Total receipts  | 492,714                         | 185,889              | -                       | -                 | 14,624   |
| Disbursements:  |                                 |                      |                         |                   |  |
| Operating:  |                                 |                      |                         |                   |  |
| Public safety   | 179,956                         | 203,489              | -                       | -                 | -  |
| Public works  | 79,639                          | -                    | -                       | -                 | -  |
| Culture and recreation  | 133,091                         | -                    | -                       | -                 | -  |
| Community and economic development                            | 9,162                           | -                    | -                       | -                 | 15,716   |
| General government  | 94,809                          | -                    | -                       | -                 | -  |
| Total disbursements   | 496,657                         | 203,489              | -                       | -                 | 15,716   |
| Excess (deficiency) of receipts over<br>(under) disbursements | 31,057                          | (17,600)             | -                       | -                 | (1,092)  |
| Change in cash balances                                       | (3,943)                         | (17,600)             | -                       | -                 | (1,092)  |
| Cash balances beginning of year                               | 135,637                         | 319,238              | 3,906                   | 115,745           | 1,226  |
| Cash balances end of year                                     | <u>\$131,694</u>                | <u>\$301,638</u>     | <u>\$ 3,906</u>         | <u>\$115,745</u>  | <u>\$ 134</u>  |
| <b>Cash Basis Fund Balances</b>                               |                                 |                      |                         |                   |  |
| Nonspendable:   |                                 |                      |                         |                   |  |
| Cemetery Perpetual Care                                       | \$ -                            | \$ -                 | \$ -                    | \$ -              | \$ -   |
| Reaver Trust  | -                               | -                    | -                       | -                 | -  |
| Restricted for Other purposes                                 | 131,694                         | 301,638              | 3,906                   | 115,745           | 134  |
| Unassigned  | -                               | -                    | -                       | -                 | -  |
| Total cash basis fund balances                                | <u>\$131,694</u>                | <u>\$301,638</u>     | <u>\$ 3,906</u>         | <u>\$115,745</u>  | <u>\$ 134</u>  |

See accompanying independent auditor's report.

| Special Revenue               |                             |                                |                         |                                     |                        |         | Permanent                     |                 |           |
|-------------------------------|-----------------------------|--------------------------------|-------------------------|-------------------------------------|------------------------|---------|-------------------------------|-----------------|-----------|
| Police<br>Department<br>Trust | Fire<br>Rescue<br>Donations | Library<br>Gifts/<br>Memorials | Recreation<br>Donations | Auld<br>Park<br>Playground<br>Trust | K-9<br>Unit<br>Program | I-Jobs  | Cemetery<br>Perpetual<br>Care | Reaver<br>Trust | Total     |
| \$ -                          | \$ -                        | \$ -                           | \$ -                    | \$ -                                | \$ -                   | \$ -    | \$ -                          | \$ -            | \$660,600 |
| -                             | -                           | -                              | -                       | -                                   | -                      | -       | -                             | -               | 32,403    |
| 24                            | 9                           | 7                              | -                       | 39                                  | -                      | -       | 126                           | -               | 429       |
| 15,811                        | 4,965                       | 3,793                          | -                       | -                                   | -                      | -       | 7,180                         | -               | 31,749    |
| 15,835                        | 4,974                       | 3,800                          | -                       | 39                                  | -                      | -       | 7,306                         | -               | 725,181   |
|                               |                             |                                |                         |                                     |                        |         |                               |                 |           |
| 19,020                        | 9,037                       | -                              | -                       | -                                   | -                      | -       | -                             | -               | 411,502   |
| -                             | -                           | -                              | -                       | -                                   | -                      | -       | -                             | -               | 79,639    |
| -                             | -                           | 4,448                          | -                       | -                                   | -                      | -       | -                             | -               | 137,539   |
| -                             | -                           | -                              | -                       | -                                   | -                      | -       | -                             | -               | 24,878    |
| -                             | -                           | -                              | -                       | -                                   | -                      | -       | -                             | -               | 94,809    |
| 19,020                        | 9,037                       | 4,448                          | -                       | -                                   | -                      | -       | -                             | -               | 748,367   |
|                               |                             |                                |                         |                                     |                        |         |                               |                 |           |
| (3,185)                       | (4,063)                     | (648)                          | -                       | 39                                  | -                      | -       | 7,306                         | -               | 11,814    |
| (3,185)                       | (4,063)                     | (648)                          | -                       | 39                                  | -                      | -       | 7,306                         | -               | (23,186)  |
| 12,107                        | 14,540                      | 14,932                         | 4,832                   | 34,109                              | (8,045)                | 3,091   | 255,277                       | 500             | 907,095   |
| \$ 8,922                      | \$10,477                    | \$14,284                       | \$4,832                 | \$34,148                            | \$(8,045)              | 3,091   | 262,583                       | \$ 500          | \$883,909 |
|                               |                             |                                |                         |                                     |                        |         |                               |                 |           |
| \$ -                          | \$ -                        | \$ -                           | \$ -                    | \$ -                                | \$ -                   | \$ -    | \$262,583                     | \$ -            | \$262,583 |
| -                             | -                           | -                              | -                       | -                                   | -                      | -       | -                             | 500             | 500       |
| 8,922                         | 10,477                      | 14,284                         | 4,832                   | 34,148                              | -                      | 3,091   | -                             | -               | 628,871   |
| -                             | -                           | -                              | -                       | -                                   | (8,045)                | -       | -                             | -               | (8,045)   |
| \$ 8,922                      | \$10,477                    | \$14,284                       | \$4,832                 | \$34,148                            | \$(8,045)              | \$3,091 | \$262,583                     | \$ 500          | \$883,909 |

## CITY OF KNOXVILLE

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Internal Service Funds

As of and for the year ended June 30, 2015

|   | Equipment<br>Replacement | Building<br>Replacement | Self<br>Insurance | Total       |
|---|--------------------------|-------------------------|-------------------|-------------|
| Operating receipts:   |                          |                         |                   |             |
| Charges for service   | \$ 409,888               | \$ -                    | \$ 71,574         | \$ 481,462  |
| Total operating receipts  | 409,888                  | -                       | 71,574            | 481,462     |
| Operating disbursements:  |                          |                         |                   |             |
| Governmental activities:  |                          |                         |                   |             |
| Public safety   | 77,261                   | -                       | -                 | 77,261      |
| Public works  | 41,061                   | -                       | -                 | 41,061      |
| Culture and recreation  | 38,268                   | -                       | -                 | 38,268      |
| General government  | -                        | 25,000                  | 189,191           | 214,191     |
| Business type activities:   |                          |                         |                   |             |
| Sewer   | 22,246                   | -                       | -                 | 22,246      |
| Total operating disbursements   | 178,836                  | 25,000                  | 189,191           | 393,027     |
| Excess (deficiency) of operating receipts<br>over (under) operating disbursements | 231,052                  | (25,000)                | (117,617)         | 88,435      |
| Other financing sources:  |                          |                         |                   |             |
| Miscellaneous   | 14,545                   | -                       | -                 | 14,545      |
| Interest on investments   | 467                      | 14                      | 521               | 1,002       |
| Total other financing sources   | 15,012                   | 14                      | 521               | 15,547      |
| Change in cash balances   | 246,064                  | (24,986)                | (117,096)         | 103,982     |
| Cash balances beginning of year   | 1,119,804                | 90,215                  | 181,890           | 1,391,909   |
| Cash balances end of year   | \$1,365,868              | \$65,229                | \$ 64,794         | \$1,495,891 |
| <b>Cash Basis Fund Balances</b>   |                          |                         |                   |             |
| Unrestricted  | \$1,365,868              | \$65,229                | \$ 64,794         | \$1,495,891 |

See accompanying independent auditor's report.

**City of Knoxville**

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**CITY OF KNOXVILLE**

## Schedule of Indebtedness

Year ended June 30, 2015

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| Obligation                             | Date of Issue | Interest Rates | Amount Originally Issued |
|--|---------------|----------------|--------------------------|
| General obligation bonds:              |               |                |                          |
| Corporate and refunding Series 2010C   | Sep 20, 2010  | 1.70 - 3.00%   | \$ 3,640,000             |
| Refunding Series 2012A                 | May 15, 2012  | 1.00 - 1.80%   | 1,235,000                |
| General corporate purpose Series 2013A | Jun 19, 2013  | .50 - 1.85%    | 3,360,000                |
| Total                                  |               |                |                          |
| General obligation capital loan notes: |               |                |                          |
| Refunding Series 2007A                 | Sep 19, 2007  | 3.95- 4.05%    | \$ 1,765,000             |
| Sewer improvement Series 2010D         | Nov 18, 2010  | 2.70%          | 710,000                  |
| Total                                  |               |                |                          |
| Revenue bonds and notes:               |               |                |                          |
| Sewer Series 2008                      | Dec 10, 2008  | 4.50 - 4.85%   | \$ 5,370,000             |
| Sewer Series 2010A                     | *Feb 16, 2010 | 3.00%          | 2,216,056                |
| Sewer refunding Series 2010B           | Mar 18, 2010  | 3.00%          | 1,705,000                |
| Sewer SRF Planning and Design Loan     | Jun 22, 2012  | 0.00%          | 375,000                  |
| Sewer refunding Series 2015A           | Apr 23, 2015  | .90 - 3.00%    | 3,180,000                |
| Sewer SRF wastewater treatment         | Jun 19, 2015  | 1.75%          | 2,518,000                |
| Total                                  |               |                |                          |
| Capital lease:                         |               |                |                          |
| Ambulance                              | Aug 13, 2013  | 6.74           | \$ 61,130                |

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\* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

(1) \$4,319,011 is being held in escrow to recall \$4,460,000 of the bonds on June 1, 2016.

See accompanying independent auditor's report.

| Balance<br>Beginning<br>of Year | Issued<br>During<br>Year | Redeemed<br>During<br>Year | Balance<br>End of<br>Year | Interest<br>Paid  |
|---------------------------------|--------------------------|----------------------------|---------------------------|-------------------|
| \$ 2,045,000                    | \$ -                     | \$ 310,000                 | \$ 1,735,000              | \$ 46,695         |
| 1,065,000                       | -                        | 170,000                    | 895,000                   | 14,055            |
| 3,040,000                       | -                        | 320,000                    | 2,720,000                 | 33,480            |
| <u>\$ 6,150,000</u>             | <u>-</u>                 | <u>\$ 800,000</u>          | <u>\$ 5,350,000</u>       | <u>\$ 94,230</u>  |
| \$ 735,000                      | \$ -                     | \$ 135,000                 | \$ 600,000                | \$ 29,350         |
| 625,000                         | -                        | 20,000                     | 605,000                   | 16,876            |
| <u>\$ 1,360,000</u>             | <u>\$ -</u>              | <u>\$ 155,000</u>          | <u>\$ 1,205,000</u>       | <u>\$ 46,226</u>  |
| \$ 4,670,000                    | \$ -                     | \$ 210,000                 | \$ 4,460,000 (1)          | \$ 217,298        |
| 2,195,000                       | -                        | 20,000                     | 2,175,000                 | 65,850            |
| 780,000                         | -                        | 250,000                    | 530,000                   | 22,775            |
| 340,000                         | -                        | 340,000                    | -                         | -                 |
| -                               | 3,180,000                | -                          | 3,180,000                 | -                 |
| -                               | 200,453                  | -                          | 200,453                   | -                 |
| <u>\$ 7,985,000</u>             | <u>\$ 3,380,453</u>      | <u>\$ 820,000</u>          | <u>\$10,545,453</u>       | <u>\$ 305,973</u> |
| <u>\$ 41,460</u>                | <u>\$ -</u>              | <u>\$ 41,460</u>           | <u>\$ -</u>               | <u>\$ 1,704</u>   |

# CITY OF KNOXVILLE

## Bond and Note Maturities

June 30, 2015

|          | General Obligation Bonds  |                     |                     |                   |                      |                     |                     |
|----------|---------------------------|---------------------|---------------------|-------------------|----------------------|---------------------|---------------------|
|          | Series 2010C              |                     | Series 2012A        |                   | Series 2013A         |                     |                     |
|          | Corporate and Refunding   |                     | Refunding           |                   | Corporate Purpose    |                     |                     |
| Year     | Issued September 20, 2010 |                     | Issued May 15, 2012 |                   | Issued June 19, 2013 |                     |                     |
| Ending   | Interest                  |                     | Interest            |                   | Interest             |                     |                     |
| June 30, | Rates                     | Amount              | Rates               | Amount            | Rates                | Amount              | Total               |
| 2016     | 1.70%                     | \$ 220,000          | 1.00%               | \$ 170,000        | .50%                 | \$ 325,000          | \$ 715,000          |
| 2017     | 1.95                      | 230,000             | 1.20                | 175,000           | .70                  | 330,000             | 735,000             |
| 2018     | 2.25                      | 235,000             | 1.40                | 180,000           | .85                  | 330,000             | 745,000             |
| 2019     | 2.50                      | 245,000             | 1.60                | 185,000           | 1.00                 | 335,000             | 765,000             |
| 2020     | 2.65                      | 255,000             | 1.80                | 185,000           | 1.20                 | 340,000             | 780,000             |
| 2021     | 2.80                      | 270,000             | -                   | -                 | 1.50                 | 345,000             | 615,000             |
| 2022     | 3.00                      | 280,000             | -                   | -                 | 1.70                 | 355,000             | 635,000             |
| 2023     | -                         | -                   | -                   | -                 | 1.85                 | 360,000             | 360,000             |
| Total    |                           | <u>\$ 1,735,000</u> |                     | <u>\$ 895,000</u> |                      | <u>\$ 2,720,000</u> | <u>\$ 5,350,000</u> |

| Revenue Bonds              |                          |                     |                          |                     |                       |                   |
|----------------------------|--------------------------|---------------------|--------------------------|---------------------|-----------------------|-------------------|
| Year<br>Ending<br>June 30, | Series 2008              |                     | Series 2010A             |                     | Series 2010B          |                   |
|                            | Sewer                    |                     | Sewer                    |                     | Sewer Refunding       |                   |
|                            | Issued December 10, 2008 |                     | Issued February 16, 2010 |                     | Issued March 18, 2010 |                   |
|                            | Interest                 |                     | Interest                 |                     | Interest              |                   |
|                            | Rates                    | Amount              | Rates                    | Amount              | Rates                 | Amount            |
| 2016                       | 4.50%                    | \$ 4,460,000        | 3.00%                    | \$ 25,000           | 3.00%                 | \$ 260,000        |
| 2017                       | -                        | -                   | 3.00                     | 25,000              | 3.00                  | 270,000           |
| 2018                       | -                        | -                   | 3.00                     | 122,000             | -                     | -                 |
| 2019                       | -                        | -                   | 3.00                     | 126,000             | -                     | -                 |
| 2020                       | -                        | -                   | 3.00                     | 130,000             | -                     | -                 |
| 2021                       | -                        | -                   | 3.00                     | 135,000             | -                     | -                 |
| 2022                       | -                        | -                   | 3.00                     | 139,000             | -                     | -                 |
| 2023                       | -                        | -                   | 3.00                     | 144,000             | -                     | -                 |
| 2024                       | -                        | -                   | 3.00                     | 148,000             | -                     | -                 |
| 2025                       | -                        | -                   | 3.00                     | 153,000             | -                     | -                 |
| 2026                       | -                        | -                   | 3.00                     | 158,000             | -                     | -                 |
| 2027                       | -                        | -                   | 3.00                     | 163,000             | -                     | -                 |
| 2028                       | -                        | -                   | 3.00                     | 168,000             | -                     | -                 |
| 2029                       | -                        | -                   | 3.00                     | 174,000             | -                     | -                 |
| 2030                       | -                        | -                   | 3.00                     | 180,000             | -                     | -                 |
| 2031                       | -                        | -                   | 3.00                     | 185,000             | -                     | -                 |
| Total                      |                          | <u>\$ 4,460,000</u> |                          | <u>\$ 2,175,000</u> |                       | <u>\$ 530,000</u> |

See accompanying independent auditor's report.

| General Obligation Capital Loan Notes |                   |                                   |                   |                     |
|---------------------------------------|-------------------|-----------------------------------|-------------------|---------------------|
| Refunding<br>Series 2007A             |                   | Sewer Improvement<br>Series 2010D |                   |                     |
| Issued September 19, 2007             |                   | Issued November 18, 2010          |                   |                     |
| Interest                              |                   | Interest                          |                   |                     |
| Rates                                 | Amount            | Rates                             | Amount            | Total               |
| 3.95%                                 | \$ 140,000        | 2.70%                             | \$ 70,000         | 210,000             |
| 4.00                                  | 150,000           | 2.70                              | 70,000            | 220,000             |
| 4.05                                  | 150,000           | 2.70                              | 70,000            | 220,000             |
| 4.05                                  | 160,000           | 2.70                              | 75,000            | 235,000             |
| -                                     | -                 | 2.70                              | 75,000            | 75,000              |
| -                                     | -                 | 2.70                              | 80,000            | 80,000              |
| -                                     | -                 | 2.70                              | 80,000            | 80,000              |
| -                                     | -                 | 2.70                              | 85,000            | 85,000              |
|                                       | <u>\$ 600,000</u> |                                   | <u>\$ 605,000</u> | <u>\$ 1,205,000</u> |

| Series 2015A<br>Sewer Refunding |                    | Sewer SRF<br>Wastewater Treatment |                   |                      |
|---------------------------------|--------------------|-----------------------------------|-------------------|----------------------|
| Issued April 23, 2015           |                    | Issued June 19, 2015              |                   |                      |
| Interest                        |                    | Interest                          |                   |                      |
| Rates                           | Amount             | Rates                             | Amount            | Total                |
| - %                             | \$ -               | 1.75%                             | \$ 200,453        | \$ 4,945,453         |
| .90                             | 210,000            | 1.75                              | -                 | 505,000              |
| 1.10                            | 260,000            | 1.75                              | -                 | 382,000              |
| 1.35                            | 260,000            | 1.75                              | -                 | 386,000              |
| 1.60                            | 270,000            | 1.75                              | -                 | 400,000              |
| 1.80                            | 275,000            | 1.75                              | -                 | 410,000              |
| 2.00                            | 290,000            | 1.75                              | -                 | 429,000              |
| 2.20                            | 300,000            | 1.75                              | -                 | 444,000              |
| 2.40                            | 310,000            | 1.75                              | -                 | 458,000              |
| 2.60                            | 320,000            | 1.75                              | -                 | 473,000              |
| 2.80                            | 335,000            | 1.75                              | -                 | 493,000              |
| 3.00                            | 350,000            | 1.75                              | -                 | 513,000              |
| -                               | -                  | -                                 | -                 | 168,000              |
| -                               | -                  | -                                 | -                 | 174,000              |
| -                               | -                  | -                                 | -                 | 180,000              |
| -                               | -                  | -                                 | -                 | 185,000              |
|                                 | <u>\$3,180,000</u> |                                   | <u>\$ 200,453</u> | <u>\$ 10,545,453</u> |

# CITY OF KNOXVILLE

## Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds

For the Last Ten Years

|                                    | Years ended June 30, |                    |                    |                    |                    |
|------------------------------------|----------------------|--------------------|--------------------|--------------------|--------------------|
|                                    | 2015                 | 2014               | 2013               | 2012               | 2011               |
| Receipts:                          |                      |                    |                    |                    |                    |
| Property tax                       | \$2,952,466          | \$2,908,791        | \$2,822,795        | \$2,875,400        | \$2,711,600        |
| Tax increment financing            | 531,120              | 354,277            | 242,252            | 318,340            | 320,902            |
| Other city tax                     | 1,684,688            | 1,576,472          | 1,220,128          | 769,827            | 871,465            |
| Licenses and permits               | 84,821               | 29,897             | 20,168             | 42,818             | 21,320             |
| Use of money and property          | 36,753               | 50,721             | 5,753              | 3,884              | 65,552             |
| Intergovernmental                  | 951,196              | 825,512            | 999,335            | 939,941            | 1,690,173          |
| Charges for service                | 969,587              | 872,637            | 909,812            | 873,937            | 745,648            |
| Special assessments                | 7,497                | 7,693              | 6,247              | 2,756              | 7,433              |
| Miscellaneous                      | 370,466              | 267,730            | 286,362            | 206,141            | 203,690            |
| Total                              | <u>\$7,588,594</u>   | <u>\$6,893,730</u> | <u>\$6,512,852</u> | <u>\$6,033,044</u> | <u>\$6,637,783</u> |
| Disbursements:                     |                      |                    |                    |                    |                    |
| Operating:                         |                      |                    |                    |                    |                    |
| Public safety                      | \$2,274,531          | \$1,839,305        | \$1,744,882        | \$1,587,150        | \$1,589,674        |
| Public works                       | 748,405              | 776,841            | 787,203            | 984,298            | 860,317            |
| Health and social services         | -                    | -                  | -                  | -                  | 18,477             |
| Culture and recreation             | 1,095,737            | 1,070,274          | 1,032,710          | 1,045,852          | 1,124,962          |
| Community and economic development | 351,878              | 193,813            | 222,805            | 214,944            | 55,290             |
| General government                 | 523,097              | 458,176            | 506,108            | 556,329            | 577,811            |
| Debt service                       | 1,558,643            | 1,511,847          | 878,514            | 1,376,919          | 1,246,308          |
| Capital projects                   | 1,425,184            | 2,282,626          | 1,579,394          | 1,632,554          | 2,759,921          |
| Total                              | <u>\$7,977,475</u>   | <u>\$8,127,882</u> | <u>\$6,751,616</u> | <u>\$7,398,046</u> | <u>\$8,232,760</u> |

See accompanying independent auditor's report.

| 2010               | 2009               | 2008               | 2007               | 2006               |
|--------------------|--------------------|--------------------|--------------------|--------------------|
| \$2,611,363        | \$2,497,122        | \$2,315,591        | \$2,170,476        | \$2,129,393        |
| 535,285            | 485,945            | 436,811            | 403,700            | 368,655            |
| 864,232            | 921,047            | 874,009            | 945,409            | 833,292            |
| 15,678             | 25,294             | 30,932             | 51,121             | 49,200             |
| 77,345             | 94,747             | 156,478            | 144,598            | 191,752            |
| 1,136,792          | 1,082,430          | 927,964            | 1,067,614          | 1,390,093          |
| 639,917            | 627,050            | 552,542            | 467,204            | 439,924            |
| 10,874             | 5,231              | 3,796              | -                  | -                  |
| 380,054            | 411,077            | 152,616            | 109,627            | 101,254            |
| <u>\$6,271,540</u> | <u>\$6,149,943</u> | <u>\$5,450,739</u> | <u>\$5,359,749</u> | <u>\$5,503,563</u> |
| <br>               |                    |                    |                    |                    |
| \$1,506,286        | \$1,403,437        | \$1,278,799        | \$1,140,287        | \$1,087,731        |
| 783,903            | 766,763            | 711,474            | 667,084            | 757,366            |
| 15,151             | 12,869             | 17,776             | 14,846             | 14,307             |
| 1,141,093          | 1,081,081          | 973,213            | 908,901            | 865,491            |
| <br>               |                    |                    |                    |                    |
| 102,266            | 500,686            | 420,046            | 274,588            | 145,002            |
| 503,383            | 498,032            | 329,067            | 433,227            | 417,467            |
| 1,974,144          | 1,760,500          | 1,272,801          | 976,788            | 2,507,606          |
| 1,334,631          | 676,191            | 864,294            | 867,751            | 1,479,908          |
| <u>\$7,360,857</u> | <u>\$6,699,559</u> | <u>\$5,867,470</u> | <u>\$5,283,472</u> | <u>\$7,274,878</u> |

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**CITY OF KNOXVILLE**

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Capital Projects

As of and for the year ended June 30, 2015

|   | Cemetery<br>Roads          | Bike<br>Trail<br>Project    | GO<br>Bond<br>Projects       |
|---|----------------------------|-----------------------------|------------------------------|
| Receipts:   |                            |                             |                              |
| Use of money and property:                                    |                            |                             |                              |
| Interest on investments                                       | \$ -                       | \$ -                        | \$ -                         |
| Miscellaneous   | 1,323                      | -                           | 89,878                       |
| Total receipts  | <u>1,323</u>               | <u>-</u>                    | <u>89,878</u>                |
| Disbursements:  |                            |                             |                              |
| Capital projects  | <u>-</u>                   | <u>645</u>                  | <u>1,349,929</u>             |
| Total disbursements   | <u>-</u>                   | <u>645</u>                  | <u>1,349,929</u>             |
| Excess (deficiency) of receipts over<br>(under) disbursements | 1,323                      | (645)                       | (1,260,051)                  |
| Cash balances beginning of year                               | <u>51,480</u>              | <u>253,267</u>              | <u>1,767,011</u>             |
| Cash balances end of year                                     | <u><u>\$52,803</u></u>     | <u><u>\$252,622</u></u>     | <u><u>\$ 506,960</u></u>     |
| <b>Cash Basis Fund Balances</b>                               |                            |                             |                              |
| Restricted for:   |                            |                             |                              |
| Other purposes  | \$52,803                   | \$252,622                   | \$ 506,960                   |
| Unassigned  | <u>-</u>                   | <u>-</u>                    | <u>-</u>                     |
| <br>Total cash basis fund balances                            | <br><u><u>\$52,803</u></u> | <br><u><u>\$252,622</u></u> | <br><u><u>\$ 506,960</u></u> |

See accompanying independent auditor's reports.

| Entrance<br>Signs | 2007 CDBG<br>Housing<br>Rehab | 2009 CDBG<br>NSP<br>Grant | Capital<br>Project<br>Library | Capital<br>Project<br>Recreation | Total       |
|-------------------|-------------------------------|---------------------------|-------------------------------|----------------------------------|-------------|
| \$ 14             | \$ -                          | \$ -                      | \$ -                          | \$ -                             | \$ 14       |
| -                 | -                             | -                         | 33,401                        | 7,000                            | 131,602     |
| 14                | -                             | -                         | 33,401                        | \$ 7,000                         | 131,616     |
| -                 | (3,221)                       | -                         | 16,619                        | -                                | 1,363,972   |
| -                 | (3,221)                       | -                         | 16,619                        | -                                | 1,363,972   |
| 14                | 3,221                         | -                         | 16,782                        | 7,000                            | (1,232,356) |
| 3,640             | (13,466)                      | 27,123                    | 93,277                        | -                                | 2,182,332   |
| \$ 3,654          | \$ (10,245)                   | \$ 27,123                 | \$110,059                     | \$ 7,000                         | \$ 949,976  |
| \$ 3,654          | \$ -                          | \$ 27,123                 | \$110,059                     | \$ 7,000                         | \$ 960,221  |
| -                 | (10,245)                      | -                         | -                             | -                                | (10,245)    |
| \$ 3,654          | \$(10,245)                    | \$ 27,123                 | \$110,059                     | \$ 7,000                         | \$ 949,976  |



# MARTENS & COMPANY, CPA, LLP

CERTIFIED PUBLIC ACCOUNTANTS  
4949 Pleasant Street, Suite 104  
West Des Moines, Iowa 50266

(515)-223-4841  
FAX: (515)-223-0851

## **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States, the primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Knoxville, Iowa as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 19, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the primary government of the City of Knoxville's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the primary government of the City of Knoxville's internal control. Accordingly, we do not express an opinion on the effectiveness of the primary government of the City of Knoxville's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the primary government of the City of Knoxville's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items II-A-15 through II-E-15 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-F-15 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the primary government of the City of Knoxville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the primary government of the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## The City of Knoxville's Responses to Findings

The City of Knoxville's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The City of Knoxville's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the primary government of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Knoxville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Martens & Company, CPA, LLP*

West Des Moines, Iowa  
November 19, 2015

**CITY OF KNOXVILLE**

Schedule of Findings

Year ended June 30, 2015

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unmodified opinion was issued on the primary government financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

## CITY OF KNOXVILLE

### Schedule of Findings - Continued

Year ended June 30, 2015

#### **Part II: Findings Related to the Financial Statements:**

##### **SIGNIFICANT DEFICIENCIES:**

- II-A-15     Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the following functions are not entirely segregated: cash receipts, general ledger posting, reconciliations and investment control and custody.

Recommendation - We realize that segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Response - The City tries to segregate duties as much as possible.

Conclusion - Response acknowledged.

- II-B-15     Knoxville Municipal Waterworks -The Waterworks provides billing and collection services for the City's sewer and water fees. The sewer receipts are remitted to the City. The Waterworks provides a reconciliation of billings, collections and receivable balances to the City, but the City does not review the reconciliation.

Recommendation -The City should perform an independent review of the reconciliation of billings, collections and receivable balances for sewer fees received from the Waterworks.

Response - With a change in personnel, a monthly reconciliation will be implemented which will be reviewed by the City Manager or his assistant when hired.

Conclusion - Response accepted.

- II-C-15     Recreation Center - One employee is responsible for opening the mail, collecting receipts, recording receipts and preparing the deposit. In addition, an initial listing of receipts is not prepared.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response - The City has a small full time staff. The staff has begun cross training these duties with other staff members.

Conclusion - Response accepted.

## CITY OF KNOXVILLE

### Schedule of Findings - Continued

Year ended June 30, 2015

- II-D-15      Records of Account - The Recreation Center maintained a checking account separate from the City Clerk's records. The transactions are reported to the City monthly and balances periodically transferred into the City's checking account. However, the balance of the checking account of \$12,885 at the end of the fiscal year was not included in the City's records.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

The year end balance of the separate checking account maintained by the Recreation Center should be included in the City's records.

Response - The City will record the Recreation Center account on the City records.

Conclusion - Response accepted.

- II-E-15      Crossover Refunding - The City obtained new financing for the purposes of conducting a crossover refunding of older bond issues. The City did not reflect on the general ledger the proceeds of the new bond issue or the escrow balance account of the 2008 bond issue at June 30, 2015.

Recommendation - We recommend that procedures be put into place for the City to record all activity of crossover and advance refunding transactions.

Response - The City has, subsequent to the year end, posted the activity to the general ledger. The City will adopt procedures to insure that activity of all refunding bond issues are all reflected on the records of the City.

Conclusion - Response accepted.

- II-F-15      Electronic Data Processing Systems - During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

The City does not have written policies for:

- A disaster recovery plan.

## **CITY OF KNOXVILLE**

### **Schedule of Findings - Continued**

Year ended June 30, 2015

II-F-15      Electronic Data Processing Systems - Continued

Recommendation - The City should develop written policies addressing the above items in order to improve the City's internal control over computer-based systems.

Response - The City will look into creating a disaster recovery plan.

Conclusion - Response accepted.

#### **INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

## CITY OF KNOXVILLE

### Schedule of Findings - Continued

Year ended June 30, 2015

#### **Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-15 Certified Budget - Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the public safety, public works, general government, debt service and business type functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget

Response - In the future the City will amend the budget prior to disbursements exceeding budgeted amounts.

Conclusion - Response accepted.

- III-B-15 Questionable Disbursements - We noted no expenditures for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-15 Travel Expenses - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- III-D-15 Business Transactions - No business transactions between the City and City officials or employees were noted.

- III-E-15 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- III-F-15 Council Minutes - No transactions were found that we believe should have been approved in the Council Minutes but were not.

- III-G-15 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- III-H-15 Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.

## CITY OF KNOXVILLE

### Schedule of Findings - Continued

Year ended June 30, 2015

III-I-15 Financial Condition - the City had deficit balances at June 30, 2015 as follows:

| <u>Fund</u>      | <u>Amount</u> |
|------------------|---------------|
| Enterprises:     |               |
| Airport          | \$601,479     |
| Governmental:    |               |
| Special Revenue: |               |
| K-9 Unit Program | 8,045         |

Recommendation - The City should continue in their efforts of returning these funds to a sound financial position.

Response - The City agrees that deficit fund balances are not desirable. The City will look into why these funds have deficits and make necessary adjustments.

Conclusion - Response accepted.

III-J-15 Urban Renewal Annual Report - The Urban renewal annual report was approved and certified to the Iowa Department of Management on or before December 1.

The City's beginning and ending cash balances of the special revenue, urban renewal tax increment fund reported on the levy authority summary do not agree with the City's general ledger. Five star TIF interest was not certified.

Recommendation - the City should ensure that the cash balances and debit amounts reported on the levy authority summary agree with the City's records.

Response - These items will be reported on next year's report.

Conclusion - Response accepted.